

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Hatton Township	County Clare
Audit Date June 30, 2004	Opinion Date December 13, 2004	Date Accountant Report Submitted to State: January 25, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

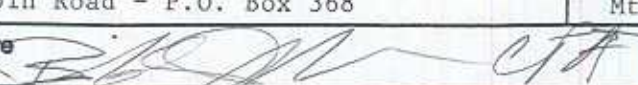
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ yes ☐ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Page, Olson & Company, P.C., CPA's			
Street Address 2865 S. Lincoln Road - P.O. Box 368	City Mt. Pleasant	State MI	ZIP 48804-0368
Accountant Signature 			

HATTON TOWNSHIP, CLARE COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

**HATTON TOWNSHIP, CLARE COUNTY  
YEAR ENDED JUNE 30, 2004**

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**HATTON TOWNSHIP, CLARE COUNTY  
TOWNSHIP OFFICIALS  
YEAR ENDED JUNE 30, 2004**

SUPERVISOR

William Hileman

CLERK

Janet Trietch

TREASURER

Patricia Shull

TRUSTEES

David Farrell

Bill Guiette





PAGE

OLSON &amp;

COMPANY P.C.

## INDEPENDENT AUDITORS' REPORT

December 13, 2004

Township Board  
Township of Hatton  
Clare County, Michigan

We have audited the accompanying statements of assets and liabilities arising from cash transactions of the Township of Hatton as of June 30, 2004, and the related statement of revenue collected and expenditures paid for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the Township of Hatton. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township of Hatton has a population of less than 4,000 people and is therefore required by Act 46, Public Acts of 1996 of the State of Michigan, to have an independent audit only biennially. The preceding year has thus not been audited; however, we have performed various tests of the opening balances.

As described in the Summary of Significant Accounting Policies, Note 1-C, the Township prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

As described in Note 1-C, the Township prepared these financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury to demonstrate compliance with the State's accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The differences in presentation allowed by the State and that of accounting principles generally accepted in the United States of America are also described in Note 1-C.

Township Board  
Township of Hatton  
Clare County, Michigan

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Township of Hatton as of June 30, 2004, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

Also, in our opinion, the financial statements do present fairly the assets, liabilities, and cash basis fund balance of the individual funds of the Township of Hatton as of June 30, 2004, arising from cash transactions, and its revenue collected, expenditures paid, and changes in cash basis fund balance for the year ended, on the basis of accounting and presentation described in Note 1-C.

The Budgetary Comparison Schedule - General Fund on pages 15 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board as well as the State of Michigan. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township's basic financial statements. The Other Supplemental Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The General Fixed Assets Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our report of comments and recommendations is included herein and forms a part of this report.

*Page, Olson & Company*

**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF ASSETS AND LIABILITIES ARISING**  
**FROM CASH TRANSACTIONS - GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**

Statement I

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 89,530	\$ 797	\$ 90,327
Certificates of Deposit	<u>219,920</u>	<u>2,154</u>	<u>222,074</u>
<b>Total Assets</b>	<b><u>\$ 309,450</u></b>	<b><u>\$ 2,951</u></b>	<b><u>\$ 312,401</u></b>
<b>Fund Balances</b>			
Reserved - Non-expendable	\$ -	\$ 2,951	\$ 2,951
Unreserved - Undesignated	<u>309,450</u>	<u>-</u>	<u>309,450</u>
<b>Total Fund Balance</b>	<b><u>\$ 309,450</u></b>	<b><u>\$ 2,951</u></b>	<b><u>\$ 312,401</u></b>

The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF REVENUE COLLECTED, EXPENDITURES**  
**PAID, AND CHANGES IN FUND BALANCE - GOVERNEMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

Statement II

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Revenue</b>			
Property Taxes	\$ 40,860	\$ -	\$ 40,860
Licenses and Permits	1,320	-	1,320
Intergovernmental Revenue	69,361	-	69,361
Interest and Divident Earnings	4,763	27	4,790
Land Division Act	450	-	450
Charges for Services	-	390	390
Cable Service Fees	956	-	956
Cemetery Fees	250	-	250
	<hr/>	<hr/>	<hr/>
<b>Total Revenue</b>	<b>117,960</b>	<b>417</b>	<b>118,377</b>
<b>Expenditures</b>			
GENERAL GOVERNMENT			
Township Board	2,004	-	2,004
Supervisor	5,347	-	5,347
Assessor	8,948	-	8,948
Elections	7	-	7
Accounting and Auditing	175	-	175
Attorney	321	-	321
Clerk	7,757	-	7,757
Deputy Clerk	335	-	335
Voters Registration	111	-	111
Board of Review	670	-	670
Treasurer	8,543	-	8,543
Township Hall and Grounds	1,425	-	1,425
Cemetery	1,524	-	1,524
	<hr/>	<hr/>	<hr/>
Total General Government	37,167	-	37,167
PUBLIC SAFETY			
Fire Protection	9,693	-	9,693
Zoning Inspector	285	-	285
Land Division Act	225	-	225
	<hr/>	<hr/>	<hr/>
Total Public Safety	10,203	-	10,203
PUBLIC WORKS			
Highways and Streets	50,664	-	50,664
CULTURE AND RECREATION			
Library			
Contracted Services	3,923	-	3,923
PLANNING			
Planning Board/Commission	1,788	-	1,788

The accompanying notes are an integral part of the financial statements.



**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF REVENUE COLLECTED, EXPENDITURES**  
**PAID, AND CHANGES IN FUND BALANCE - GOVERNEMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

Statement II

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Expenditures (Continued)</b>			
OTHER FUNCTIONS			
Fringe Benefits	\$ 2,042	\$ -	\$ 2,042
Insurance Not Charged of Specific Activities	<u>3,857</u>	<u>-</u>	<u>3,857</u>
Total Other Functions	<u>5,899</u>	<u>-</u>	<u>5,899</u>
<b>Total Expenditures</b>	<b>109,644</b>	<b>-</b>	<b>109,644</b>
 <b>Net Change in Fund Balance</b>	 <b>8,316</b>	 <b>417</b>	 <b>8,733</b>
<b>Fund Balance - July 1</b>	<u><b>301,134</b></u>	<u><b>2,534</b></u>	<u><b>303,668</b></u>
<b>Fund Balance - June 30</b>	<u><u><b>\$ 309,450</b></u></u>	<u><u><b>\$ 2,951</b></u></u>	<u><u><b>\$ 312,401</b></u></u>

The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

Statement III

**Assets**

Cash and cash equivalents	\$ <u>3</u>
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**Liabilities**

Undistributed Taxes	\$ <u>3</u>
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**HATTON TOWNSHIP, CLARE COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Statement IV

**ADDITIONS**

Collections:	
Property Taxes	\$ 456,915

Investment Income:	
Interest	<u>48</u>

<b>Total Additions</b>	<b>456,963</b>
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**DEDUCTIONS**

Disbursements:	
Distributed Taxes	457,005
Refunds	<u>8</u>

<b>Total Deductions</b>	<b>457,013</b>
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<b>Change in Net Assets</b>	<b>(50)</b>
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<b>Net Assets - July 1</b>	<u><b>53</b></u>
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<b>Net Assets - June 30</b>	<u><u><b>\$ 3</b></u></u>
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The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Hatton Township is a general law Michigan township with a population of less than 4,000 people. The Township is governed by a five member board of officials elected by the Township voters.

**A. FINANCIAL REPORTING ENTITY**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB) Statement 14. Generally, component units are legally separate organizations for which the elected officials of the Township are financially accountable. Financial accountability is determined by the Township's ability to impose its will on the component unit, as well as the unit's significance regarding operational and financial relationship with the Township. Based upon the application of this criteria there were no other units to be included in the financial statements.

**B. FUND ACCOUNTING**

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures as appropriate. The various funds of the Township are as follows:

**GENERAL FUND**

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**PERMANENT FUND**

**Cemetery Perpetual Care Fund**

The Cemetery Perpetual Care Fund is used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the cemetery. At June 30, 2004 the Township of Hatton restricted all funds designated in the Cemetery Perpetual Care Fund for the purpose of establishing the principal in the fund to generate income. Going forward, it is the Township's intention that all future lot sales and investment income generated from the principal in this fund be used for the maintenance and upkeep of the cemetery.

**AGENCY FUND**

**Current Property Tax Fund**

The Current Property Tax Collections Fund is used to account for assets held by the Township as an agent for individuals, other governments, and/or other funds.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. BASIS OF ACCOUNTING AND PRESENTATION**

The accounting books and records of the Township of Hatton are maintained on a cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The financial statements do not, therefore, give effect to accounts receivable, accounts payable, and accrued items. Additionally, it does not give effect to the recording of capital assets or related depreciation or accumulated depreciation.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury responsible for overseeing local unit compliance has determined that omission of the Management's Discussion and Analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation, as such the Township has elected to omit these sections of the GASB 34 reporting format.

**D. PROPERTY TAXES**

Hatton Township levies a millage of 0.8376 plus a 1% administration fee for general operations. The Township property tax is levied on December 1. Taxes are payable on a current basis from December 1 to February 28, at which point they become delinquent.

Receipts of current and delinquent property taxes are recorded as revenue in the year in which received. Clare County, the county in which the Township of Hatton is located, has a delinquent tax revolving fund whereby the County pays the Township for its delinquent real property taxes. It then becomes the County's responsibility to collect these delinquent taxes from the various taxpayers.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Annual budgets are adopted on a basis consistent with the basis of accounting utilized by the Township and state law for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level for the general fund. State law requires the Township to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budgets during the year. The Township amended its budget at various times during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The General Fund did not incur expenditures in excess of the legal level of appropriations for the year ended June 30, 2004.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004**

**NOTE 3 - CASH AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of United States banks, obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investment by a public corporation; obligations described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501

to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investments pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Township's deposits are in accordance with statutory authority.

The Township of Hatton's cash and investments during the year consisted of cash in checking accounts and certificates of deposit. This is in accordance with statutory authority and within local unit authorization.

**Carrying Amount**

At year end, the carrying amount of cash and investments held by the Township of Hatton was \$312,401, as follows:

Deposits with financial institutions:

Cash in Checking	\$ 89,530
Cash in Savings	797
Certificates of Deposit	<u>222,074</u>
	<u>\$ 312,401</u>

On June 30, 2004 the carrying amount of deposits with financial institutions was \$312,401 of which \$302,484 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$9,920 was uninsured and uncollateralized. Actual deposits with financial institutions were \$313,463 of which \$302,532 was covered by the FDIC and \$10,931 was uninsured and uncollateralized.

Due to varying cash flows the Township's deposits with financial institutions were higher during the year than at year end. Therefore, there may have been more deposits that were uninsured and uncollateralized at points during the year.



**REQUIRED SUPPLEMENTAL INFORMATION**

HATTON TOWNSHIP, CLARE COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
YEAR ENDED JUNE 30, 2004

Schedule 1

	Original Budget	Final Amended Budget	Actual
<b>Revenue</b>			
Property Taxes	\$ 38,750	\$ 38,750	\$ 40,860
Licenses and Permits	700	700	1,320
Intergovernmental Revenue	58,390	58,390	69,361
Interest and Divident Earnings	2,850	2,850	4,763
Land Division Act	300	300	450
Charges for Services	-	-	-
Cable Service Fees	400	400	956
Cemetery Fees	-	-	250
	<u>-</u>	<u>-</u>	<u>250</u>
<b>Total Revenue</b>	<b>101,390</b>	<b>101,390</b>	<b>117,960</b>
<b>Expenditures</b>			
<b>GENERAL GOVERNMENT</b>			
Township Board	4,575	4,635	2,004
Supervisor	6,757	6,757	5,347
Assessor	11,625	11,625	8,948
Elections	2,360	2,360	7
Accounting and Auditing	2,250	2,250	175
Attorney	2,025	2,120	321
Clerk	8,742	8,742	7,757
Deputy Clerk	1,225	1,225	335
Voters Registration	750	750	111
Board of Review	1,830	1,830	670
Treasurer	9,862	9,862	8,543
Deputy Treasurer	70	70	-
Township Hall and Grounds	24,000	24,000	1,425
Cemetery	<u>2,750</u>	<u>2,750</u>	<u>1,524</u>
<b>Total General Government</b>	<b>78,821</b>	<b>78,976</b>	<b>37,167</b>
<b>PUBLIC SAFETY</b>			
Fire Protection	10,500	10,500	9,693
Zoning Inspector	2,205	2,205	285
Sign Ordinance	2,225	2,225	-
Land Division Act	<u>440</u>	<u>440</u>	<u>225</u>
<b>Total Public Safety</b>	<b>15,370</b>	<b>15,370</b>	<b>10,203</b>
<b>PUBLIC WORKS</b>			
Highways and Streets	55,000	55,000	50,664
<b>CULTURE AND RECREATION</b>			
Library			
Contracted Services	4,200	4,200	3,923
<b>PLANNING</b>			
Planning Board/Commission	2,245	2,445	1,788

HATTON TOWNSHIP, CLARE COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
YEAR ENDED JUNE 30, 2004

Schedule 1

	Original Budget	Final Amended Budget	Actual
<b>Expenditures (Continued)</b>			
OTHER FUNCTIONS			
Fringe Benefits	\$ 3,100	\$ 3,100	\$ 2,042
Insurance Not Charged of Specific Activities	<u>4,000</u>	<u>4,000</u>	<u>3,857</u>
Total Other Functions	<u>7,100</u>	<u>7,100</u>	<u>5,899</u>
<b>Total Expenditures</b>	<b>162,736</b>	<b>163,091</b>	<b>109,644</b>
 <b>Net Change in Fund Balance</b>	 <b>(61,346)</b>	 <b>(61,701)</b>	 <b>8,316</b>
<b>Fund Balance - July 1</b>	<b><u>301,134</u></b>	<b><u>301,134</u></b>	<b><u>301,134</u></b>
<b>Fund Balance - June 30</b>	<b><u>\$ 239,788</u></b>	<b><u>\$ 239,433</u></b>	<b><u>\$ 309,450</u></b>

**OTHER SUPPLEMENTAL INFORMATION**

**HATTON TOWNSHIP, CLARE COUNTY**  
**OTHER SUPPLEMENTAL INFORMATION**  
**GENERAL FIXED ASSETS**  
**YEAR ENDED JUNE 30, 2004**

Schedule 2

	Cost or Estimated Value at 7/01/03	Additions	Deletions	Cost or Estimated Value at 6/30/04
<u>Land</u>				
Township Grounds - Land Improvements	\$ 130	\$ -	\$ -	\$ 130
Cemetery - Land Improvements and Capital Outlay	<u>1,940</u>	<u>-</u>	<u>-</u>	<u>1,940</u>
Total Land	2,070	-	-	2,070
<u>Buildings</u>				
Township Hall and Buildings (Estimated Value)	15,000	-	-	15,000
Building Additions and Improvements	7,049	-	-	7,049
Storage Building	<u>254</u>	<u>-</u>	<u>-</u>	<u>254</u>
Total Buildings	22,303	-	-	22,303
<u>Equipment</u>				
Adding Machines	90	-	50	40
File Cabinets	1,719	-	20	1,699
Ballot Boxes	100	-	70	30
Flag	20	-	20	-
Assessor's Manuals	50	-	50	-
Eight Chairs	120	-	20	100
Copy Machine and Stand	900	-	500	400
Furnance	200	-	50	150
Weed Trimmer	75	-	75	-
Signs at Cemetery	40	-	40	-
Cemetery Markers	400	-	400	-
Software	90	-	90	-
Folding Tables	100	-	20	80
Eighteen Stackable Chairs	360	-	60	300
Coat Rack	15	-	-	15
Floor Fans	20	-	5	15
Floor Mats	40	-	20	20
Grease Bulletin Board	40	-	10	30
Phone	20	-	-	20
Safe	40	-	-	40
Voting Devices	800	-	400	400
Vacuum Sweeper	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
Total Equipment	<u>5,269</u>	<u>-</u>	<u>1,930</u>	<u>3,339</u>
Total General Fixed Assets	<u>\$ 29,642</u>	<u>\$ -</u>	<u>\$ 1,930</u>	<u>\$ 27,712</u>





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COMPANY P.C.

**AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS**

December 13, 2004

Township Board  
Township of Hatton  
Clare County, Michigan

We have recently completed our audit of the financial statements of the Township of Hatton for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Hatton in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to implementation of GASB 34 is discussed further in the other communications section.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

The following are the issues noted per the above referenced topics:

Discussed with the Township Supervisor and a Trustee the extent to which the township desired to implement GASB 34. Determined at this time, that the Township would continue to maintain its records on a cash basis and that year-end financial reports would be prepared directly from those records using the minimum statement formats suggested by the State reporting requirements.



**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY**

In planning and performing our audit of the financial statements of Hatton Township, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

**Reportable Conditions (Material Weaknesses)**

Property Tax Disbursements (Repeated comment)

Public Act 211, of 1979 mandates that units with a Taxable Value greater than \$15,000,000 must remit to the Schools and the County total taxes collected through the 1st and the 15th day of each month within ten business days after the 1st and 15th day of each month. This applies to the months of December, January, and February. In addition the treasurer must remit at least 90% of the total amount of School and County collections on hand at February 28 (29) within ten business days after the end of February. There were several instances in which the Township did not disburse the taxes collected for the Schools and the County within the required time period.

Property Tax Receipts

During Property Tax Receipt testing it was noted that at several deposits were made several days after the taxes were collected. Deposits should be made at least weekly and more frequently when the amounts collected are material in amount.

**Other Reportable Conditions**

Chart of Accounts

The State of Michigan has updated the chart of accounts for local governments and it is recommended that the Township consider changing it's chart of accounts to more closely follow that of the State.

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**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY (CONTINUED)**

**Other Reportable Conditions (Continued)**

Budget Amendments

During budget testing, we noted that the Township is properly approving budget amendments to the original budget, as noted in the minutes. However, when the official, final budget is approved it does not reflect those amendments made to the budget during the year. We recommend that the Township maintain an official budget document reflecting the amendments made during the year for both expenditures and revenues that more closely represents estimated actual expenditures and revenues.

Disbursement Approval

While reading the minutes for the Township, noted that there were several check numbers missing from the sequence of checks that are approved each month for bill payment. The township should take careful measures to ensure that all approved disbursements; including check number, vendor, name, and amount, are noted in the minutes as an additional control feature and so such authentication can be performed.

Financial Oversight

The general limitations in a smaller government require that the Township Board Members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. This comment is intended to emphasize the importance of this oversight and to remind the board of its continued obligation to perform accordingly.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied to our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated December 13, 2004.

**SUMMARY**

We would like to thank the Township personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any questions that you might have at your convenience.

This communication is intended for the information of the members of the Township Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

*Page, Olson & Company*